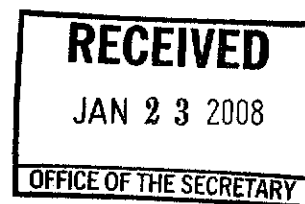


No return address

Fund Democracy
Consumer Federation of America
Consumer Action
AFL-CIO
Financial Planning Association
National Association of Personal Financial Advisors



January 16, 2008

BY EMAIL AND US MAIL

Nancy M. Morris
Secretary
Securities and Exchange Commission
100 F Street, N. E.
Washington, D.C. 20549-1090

4-554

RE: Rulemaking Petition

Dear Secretary Morris:

On behalf of Fund Democracy, the Consumer Federation of America, Consumer Action, AFL-CIO, Financial Planning Association, and National Association of Personal Financial Advisors, we hereby petition the Commission to adopt a rule requiring that money market funds make nonpublic monthly electronic filings of their portfolios to enable the Commission to monitor more closely the funds' risk of loss of principal.

As the Commission is aware, recent market events have caused a number of managers of money market funds to purchase assets from their funds in order to forestall loss of principal (commonly referred to as "breaking a dollar"). The market for structured investment vehicles backed by mortgages has experienced a significant downturn and reduced liquidity. Money market funds are permitted to hold these securities provided that the funds satisfy the maturity, quality and diversification requirements of rule 2a-7 under the Investment Company Act. In some cases, money market funds' holdings of structured investment vehicles have created the risk that the fund's net asset value would break a dollar.¹ To prevent this occurrence, some fund managers, pursuant to rule 17a-9 or SEC no-action letters,² have repurchased their funds' securities at par value.

¹ See Shannon Harrington, Money Fund Sponsors May Be Under Most Stress Ever, Moody's Says, Bloomberg (Nov. 19, 2007) (discussing \$50 billion exposure to structured investment vehicles of 10 largest U.S. money market fund managers).

² See, e.g., SEI Liquid Asset Trust – Prime Obligation Fund, SEC No-Act (Dec. 3, 2007) available at <http://www.sec.gov/divisions/investment/noaction/2007/seiliquidasset120307.pdf>. We note that the transactions permitted by these letters do not grant an exemption from applicable provisions under the Investment Company Act, such as the prohibitions against principal and joint transactions with affiliates.

We question the prudence of continuing to rely so heavily on fund managers' willingness to bail out their money market funds when loss of principal is a threat. Managers of money market funds may have regulatory as well economic incentives not to bail out their money market funds in certain situations. For example, banking regulators have occasionally expressed concern regarding the risk that banks and bank affiliates might be deemed to be guarantors of their money market funds, and they have been mollified only by reassurances that ultimately a fund manager would not be legally obligated to bail out its money market fund if regulators considered doing so to be imprudent. Banking regulators' primary concern is the safety and soundness of banks, not the safety and soundness of money market funds. Indeed, money market funds represent a continuing threat to banking regulators' turf, because money market funds for many years have increased their asset base at banks' expense. Unlike funding for the Commission, funding for key federal banking regulators is provided by the industry they regulate, and banking regulators have an incentive to favor banks over other financial services providers. The risk that one day a bank will decline to bail out a money market fund under economic, regulatory and political pressure is real. Banks' losses in the subprime market have only increased that risk.³

To our knowledge, no retail fund has broken a dollar, but we believe that it may be inevitable that a fund manager will one day decline to bail out its money market fund. To prepare for this eventuality, the Commission should take steps to ensure that the damage to faith in money market funds is minimized. Money market funds have provided a valuable service to America's financial markets, as attested to by their recent exceeding of \$3 trillion in assets. The total assets of money market funds substantially exceeds total bank deposits, a fact made all the more impressive considering that virtually all bank deposits have the advantage of government insurance. As events in England have recently reminded us, even federal deposit insurance provides no guarantee against a bank run.⁴ The absence of such insurance for money market funds makes public trust in such funds all the more critical.⁵ There have been too many instances in which Rule

We question whether the routine authorization of transactions that probably violate the federal securities law is an appropriate procedure for addressing this type of problem.

³ See Christian Plumb and Svea Herbst, Bank of America Says Closing Enhanced Cash Fund, Reuters (Dec. 10, 2007) (reporting closing of cash management fund "after it invested in risky assets in the pursuit of higher returns"); Christopher Condon and Rachel Layne, GE Bond Fund Investors Cash Out After Losses From Subprime, Bloomberg (Nov. 15, 2007) (reporting that GEAM Enhanced Cash Trust "returned money to investors at 96 cents on the dollar after losing about \$200 million, mostly on mortgage-backed securities."); Craig Karmin, Florida Fund Is Drained of \$1.2 Billion, Wall St. J. at C2 (Dec. 7, 2007) (reporting shutdown and reopening of Florida's Local Government Investment Pool, which manages cash accounts for state school districts and local governments").

⁴ See John Cranage, Big Run on Northern Rock Puts a Dent in Consumer Confidence, Birmingham Post at 17 (Sep. 29, 2007).

⁵ See Jonathan Burton, Mounting Concern about Money-Market Funds; Investments Seen as Safe and Secure Face Threat from Bad Debt Holdings, MarketWatch.com (Nov. 15, 2007) ("Is your money-market fund safe? Millions of U.S. investors with cash in these mainstream vehicles are asking that question as